



Insurance Institute of Michigan

Auto Insurance Rates in Urban Areas

Here in Michigan and throughout the United States, motorists in densely populated urban areas pay more for car insurance. For example, a Detroit resident often pays twice as much to purchase the same coverage for the same car, relative to an outstate resident. This rating system – which includes geographic location – as a factor in premium has been the target of critics for years.

Insurance industry critics charge that auto insurance rates should be based on how someone drives, not where they live. Some people contend that it is unfair for someone in an urban area to pay higher rates than someone who lives near them, but in a different zip code.

However, insurance premiums paid by urban motorists are neither arbitrary nor discriminatory. They are a true reflection of insurance costs. The frequency and severity of insurance claims are generally higher in urban areas. So premiums must be higher.

Industry critics insist that auto coverage for big city motorists is often not “affordable.” In effect, they are encouraging insurance companies to reduce premiums to levels that would be inadequate for payment of claims and expenses. To do so would generate significant financial loss on policies sold in large metropolitan areas...and/or require subsidization by other policyholders in the state. Neither is a viable alternative.

In 2005, Michigan Office of Financial and Insurance Services (OFIS) Commissioner Linda Watters initiated a study to review auto and homeowners insurance rates in Michigan. The study, conducted by Wayne State University Center for Urban Studies, found that by “standard economic tests and current statutory provisions, the markets for home insurance and private passenger auto insurance in standard statistical territories throughout the state are reasonably competitive based on 2001 and 2002 data. Therefore, the rates charged by private insurers in those markets, if challenged by the Commissioner under Section 2114(2) could not be found to be excessive under current law, even if they were found to be unreasonably high in relation to covered losses.”

Q & A ABOUT URBAN AUTO INSURANCE RATES IN MICHIGAN

Why are car insurance premiums generally higher in large urban areas?

Urban motorists pay higher costs for auto insurance here because there are:

- more vehicles per square mile, hence providing a greater chance for an accident;
- more injury claims reported whenever a damage claim is filed;
- higher amounts of injury economic losses and average payments due to higher health care costs;
- more uninsured motorists;
- higher proportions of claimants hiring attorneys to settle claims; and
- more motor vehicle thefts per 10,000 population.

Is the difference in auto premiums --- between large urban areas and other parts of Michigan --based on actual loss experience? Or is it discriminatory?

The difference is based on loss experience. There is no element of discrimination, racial or otherwise.

It is not just urban dwellers who pay more for car insurance. People living in large metropolitan areas throughout the U.S. pay considerably more than do those residing in rural and suburban areas. This is due to the reasons cited above. Insurance pay out is higher, so premiums have to be higher.

Don't suburban drivers, who commute to a large city and have accidents there, force up rates for those living in the city?

No. When the suburbanite has an insured loss, no matter where the loss occurs, it is assigned to the geographic location of his/her residence. So, the loss is reflected in future rates paid by people living in that particular suburb.

Of course, motorists who commute to the city from the suburbs do have greater exposure to loss. That is the reason they pay more for auto insurance than their suburban neighbors who do not drive a considerable distance to work.

Do property/casualty insurers make excessive profits?

According to a study commissioned by the Michigan Office of Financial and Insurance Services (OFIS), Michigan insurance company returns on net worth have been below the national norms over the last decade. The study by Wayne State University for Urban Studies noted, "...the last decade has been an unusually unprofitable period for insurance companies in Michigan, with loss ratios above historical averages for the state and contemporaneous averages for the nation."

Isn't redlining against the law?

When "redlining" is used to mean discrimination based on race, this is illegal and is condemned by the insurance industry. However, many times the term "redlining" is being incorrectly used to describe the differences in price and availability of insurance based on real risk.

What factors are used to rate auto insurance?

Michigan's Essential Insurance Act provides that rates shall not be excessive, inadequate or unfairly discriminatory. It further limits the factors an insurance company can use to determine the price of an auto policy. Following are just some of the classifications used to determine how much car insurance will cost.

Driver age, length of driving experience or number of years licensed to operate a vehicle. Statistics indicate that older, more experienced drivers are involved in fewer accidents.

Driving record. Good drivers pay lower premiums than those motorists with tickets and at-fault accidents.

Where the driver lives. More auto accidents and thefts occur in urban areas than in suburban or rural areas. Due to the increased risk, people who live in urban areas usually pay higher premiums.

Type and use of car. The cost of insuring a car depends not only on its value, but its safety features and cost to repair. Cars with air bags and anti-lock brakes may reduce the cost of Personal Injury Protection coverage. Cars used for business will cost more to insure than those used for pleasure because they are on the road more.

Coverages selected. In Michigan, drivers are required to carry Personal Injury Protection, Property Protection and Residual Liability; however, there are several "you choose" coverages available to motorists.

How can insurance rates be reduced?

Since the factors used to set rates in Michigan are required by law, the only realistic way to reduce rates is to reduce the amount insurance companies are paying out, by reducing auto theft, arson, number of accidents, and controlling medical and auto repair costs.

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